

**OFFICE OF AUDITOR OF STATE**
STATE OF IOWAState Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

David A. Vaudt, CPA
Auditor of State**NEWS RELEASE**FOR RELEASE October 29, 2010Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Hiawatha, Iowa.

The City's receipts totaled \$13,760,188 for the year ended June 30, 2010, a 29 percent increase from 2009. The receipts included \$4,217,955 in property tax, \$1,692,261 from tax increment financing, \$778,708 from local option sales tax, \$1,222,010 from charges for service, \$771,691 from operating grants, contributions and restricted interest, \$63,301 from capital grants, contributions and restricted interest, \$5,694 from unrestricted interest on investments, \$4,733,030 from note proceeds, \$197,737 from other general receipts and \$77,801 from component unit transfers.

Disbursements for the year totaled \$10,022,678, a 1 percent decrease from the prior year, and included \$2,125,802 for public safety, \$3,352,349 for debt service and \$1,268,989 for capital projects. Also, disbursements for business type activities totaled \$635,411.

The increase in receipts is primarily due to an increase in note proceeds of approximately \$1,810,000 in fiscal year 2010 as a result of more planned capital projects. In addition, the City collected \$778,708 in local option sales tax as a result of the passage of a local option sales tax referendum effective July 1, 2009.

A copy of the audit report is available for review in the City Clerk's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1020-0545-B00F.pdf>.

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CITY OF HIAWATHA

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2010

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City of Hiawatha

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2010)		
Thomas A. Theis	Mayor	Jan 2012
Linda J. Bendixen	Mayor Pro tem	Jan 2012
Robert Rampulla (Appointed)	Council Member	Nov 2009
Martin Bruns	Council Member	Jan 2010
Richard Olson	Council Member	Jan 2012
Nancy Melsa	Council Member	Jan 2012
Gary G. Rogers, Jr.	City Administrator	Indefinite
Cindy Kudrna	Finance Director	Indefinite
Kimberly Downs	City Clerk	Indefinite
Randal Scholer	City Attorney	Indefinite
Troy Anderson	Water Board Chairperson	Jan 2010
Sandra Brewer	Water Board Trustee	Jan 2011
Beverly Daws (Appointed)	Water Board Trustee	Jan 2012
Gary Casady (Appointed)	Water Board Trustee	Jan 2014
Charles Fridal	Water Board Trustee	Jan 2015
Carl Ransford	Water Superintendent	Indefinite
Debra Larson	Billing Clerk	Indefinite
Sara Ries	Assistant Billing Clerk	Indefinite
(After January 2010)		
Thomas A. Theis	Mayor	Jan 2012
Linda J. Bendixen	Mayor Pro tem	(Resigned)
Robert Rampulla	Mayor Pro tem	Jan 2014
Bob Wheeler (Appointed)	Council Member	Nov 2011
Richard Olson	Council Member	Jan 2012
Nancy Melsa	Council Member	Jan 2012
Martin Bruns	Council Member	Jan 2014
Gary G. Rogers, Jr.	City Administrator	Indefinite
Cindy Kudrna	Finance Director	Indefinite

Kimberly Downs	City Clerk	Indefinite
Randal Scholer	City Attorney	Indefinite
Beverly Daws	Water Board Chairperson	Jan 2012
Sandra Brewer	Water Board Trustee	(Resigned)
Patrick White (Appointed)	Water Board Trustee	Jan 2011
Gary Casady	Water Board Trustee	Jan 2014
Charles Fridal	Water Board Trustee	Jan 2015
Troy Anderson	Water Board Trustee	Jan 2016
Carl Ransford	Water Superintendent	Indefinite
Debra Larson	Billing Clerk	Indefinite
Sara Ries	Assistant Billing Clerk	Indefinite



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Hiawatha, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Hiawatha's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

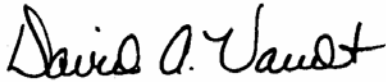
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Hiawatha as of June 30, 2010, and the respective changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

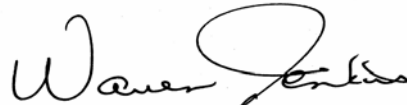
In accordance with Government Auditing Standards, we have also issued our report dated October 19, 2010 on our consideration of the City of Hiawatha's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hiawatha's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 19, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Hiawatha provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

- Receipts for the City's governmental activities increased 30%, or approximately \$2,990,000, from fiscal year 2009 to fiscal year 2010. The main contributing factor for the increase is an increase in note proceeds of approximately \$1,810,000. Additionally, property and other city tax increased approximately \$1,046,000.
- Disbursements for the City's governmental activities decreased 2%, or approximately \$172,000, from fiscal year 2009 to fiscal year 2010. The main contributing factor for this decrease was a decrease in capital projects activity of approximately \$1,171,000.
- The City's total cash basis net assets increased 87%, or approximately \$3,738,000, from June 30, 2009 to June 30, 2010. Of this amount, the net assets of the governmental activities increased approximately \$3,634,000 and the net assets of the business type activities increased approximately \$104,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into the following activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax, debt proceeds and state and federal grants finance most of these activities.
- Business Type Activities include the sanitary sewer system. These activities are financed primarily by user charges.
- Component Unit includes the Hiawatha Water Department, which accounts for the activities of the waterworks.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

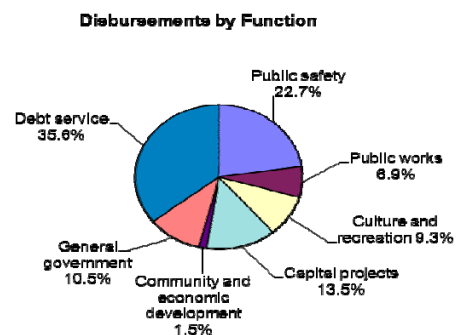
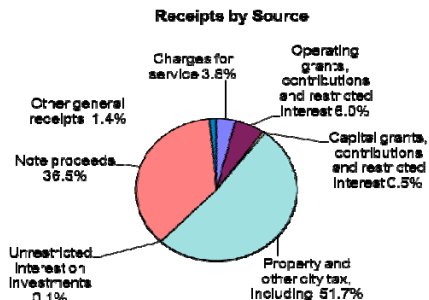
2) Proprietary funds account for the City's Enterprise Fund. Enterprise Funds are used to report business type activities. The City maintains one Enterprise Fund to provide information for the Sewer Revenue Fund, considered to be a major fund of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased approximately \$3,634,000 from a year ago, from \$3,896,614 to \$7,530,447. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service	\$ 490,548	556,604
Operating grants, contributions and restricted interest	771,691	692,935
Capital grants, contributions and restricted interest	63,301	13,252
General receipts:		
Property and other city tax, including tax increment financing	6,688,924	5,642,635
Unrestricted interest on investments	5,268	21,011
Note proceeds	4,733,030	2,923,148
Other general receipts	197,737	110,832
Total receipts	12,950,499	9,960,417
Disbursements:		
Public safety	2,125,802	1,886,866
Public works	643,619	512,414
Health and social services	4,050	13,850
Culture and recreation	868,640	750,906
Community and economic development	137,352	79,856
General government	986,466	817,429
Debt service	3,352,349	3,058,406
Capital projects	1,268,989	2,439,920
Total disbursements	9,387,267	9,559,647
Change in cash basis net assets before transfers	3,563,232	400,770
Transfers, net	70,601	196,015
Change in cash basis net assets	3,633,833	596,785
Cash basis net assets beginning of year	3,896,614	3,299,829
Cash basis net assets end of year	\$ 7,530,447	3,896,614



The City's total receipts for governmental activities increased 30%, or approximately \$2,990,000. The total cost of all programs and services decreased approximately \$172,000. The increase in receipts was primarily the result of an increase in the amount of note proceeds received in fiscal year 2010 compared to note proceeds received in fiscal year 2009 and an increase in property and other city taxes collected. The decrease in disbursements was primarily due to a decrease in capital projects activity in fiscal year 2010.

The cost of all governmental activities this year was \$9,387,267. However, as shown in the Statement of Activities and Net Assets, the amount financed by taxes for these activities was \$6,688,924, with the remainder paid for with user fees, grants, contributions, interest on investments, fund balances and note proceeds.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 731,462	556,509
General receipts:		
Unrestricted interest on investments	426	3,905
Total receipts	731,888	560,414
Disbursements:		
Sewer	635,411	608,792
Increase (decrease) in cash basis net assets before transfers	96,477	(48,378)
Transfers, net	7,200	(23,300)
Increase (decrease) in cash basis net assets	103,677	(71,678)
Cash basis net assets beginning of year	375,429	447,107
Cash basis net assets end of year	\$ 479,106	375,429

The business type activities receipts for the fiscal year were \$731,888 compared to \$560,414 last year. The increase in receipts was due to an increase in sewer rates for fiscal year 2010. Disbursements for the fiscal year increased 4% to \$635,411. As a result of these items, the cash balance increased 28%, or \$103,677, over the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Hiawatha completed the year, its governmental funds reported a combined fund balance of \$7,530,447, an increase of approximately \$3,634,000 over last year's total. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$328,623 from the prior year to \$441,101. This decrease can be attributed to an increase in health insurance rates, the addition of a new City Administrator and Finance Director for an entire year and an increase in legal fees for research in property purchases and potential litigation.
- The Special Revenue, Urban Renewal Tax Increment Fund had a cash balance of \$208,370 at the end of the fiscal year, which represents an increase of \$51,949 over the previous year. The increase was the result of a increase in the amount of TIF tax monies received during fiscal year 2010.
- The Special Revenue, Local Option Sales Tax Fund had a cash balance of \$619,772 at the end of the fiscal year. The Local Option Sales Tax Fund is a new major fund for fiscal year 2010 due to a referendum passed by the citizens of the City of

Hiawatha. The City plans to use the local option sales tax monies for the purchase of a Brush Truck for the Fire Department and various street projects during fiscal year 2011.

- The Special Revenue, Equipment Reserve Fund had a cash balance of \$616,820 at the end of the fiscal year, which represents a decrease of \$68,162 from the previous year. The decrease is due to the purchase of a new Freightliner truck with a snow plow assembly. Additionally, contributions from City departments to be used to purchase City vehicles and equipment in the future were less than in the prior fiscal year.
- The Debt Service Fund cash balance increased \$153,663 to \$705,471 during the fiscal year. The increase was due to increased transfers from the Urban Renewal Tax Increment Fund over the prior fiscal year, which will be used to pay outstanding City debt.
- The Capital Projects Fund is a combination of several sub-funds, including: the Projects Fund, the Library Project Fund, the Local Option Sales Tax (LOST) Projects Fund and the TIF Projects Fund. The fiscal year 2010 total cash balance for the Capital Projects Fund was \$4,572,237, an increase of \$3,025,736 over the prior year. The main contributing factor to the increase is note proceeds collected during the year to fund various capital projects in the upcoming fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Revenue Fund cash balance increased 28% to \$479,106 due to an increase in sewer rates.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended the budget once. The amendment was approved on May 19, 2010. The amendment resulted in an increase in disbursements of \$2,139,589 related to the undertaking of several capital projects and increased general government costs. The City had adequate funding to cover these additional costs.

The City's receipts were \$491,030 less than budgeted. This was primarily due to the City over budgeting in the areas of tax increment financing, other city tax and charges for service receipts.

Total disbursements were \$2,313,998 less than the amended budget. The actual disbursements for the public safety, public works, capital projects and business type activities functions were \$107,052, \$52,798, \$1,679,031 and \$526,384, respectively, less than the amended budget. This was primarily due to road work and other projects not progressing as anticipated.

During the year ended June 30, 2010, disbursements exceeded the amount budgeted in the debt service function. The actual disbursements for the debt service function exceeded the amount budgeted by \$169,769 due to increased payment obligations for two new series of capital loan notes.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$18,775,000 of general obligation capital loan notes and bonds outstanding, compared to \$16,750,000 last year.

Debt increased as a result of issuing three general obligation capital loan notes, one of which was used to refund a general obligation capital loan note. The other two issues will be used for improvements and extensions to streets and to existing parks, sanitary sewer, storm sewer and water improvements, acquisition of equipment for the Police and Fire Departments and for the planning, undertaking and carrying out of an urban renewal project including the Town Center Plan project.

The City has obtained a bond rating and has continued to obtain favorable rates comparable to between aa and aaa ratings. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$18,775,000 is below its constitutional debt limit of approximately \$23,124,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Hiawatha's elected officials considered many factors when setting the fiscal year 2011 budget, tax rates and fees charged for various City activities. One of those factors is the economy. The City of Hiawatha is located in Linn County, Iowa. The County unemployment rate in June 2010 was 6.5% versus 5.1% percent a year ago. This compares with the State's unemployment rate of 6.7% and the national rate of 9.5% percent.

The Consumer Price Index for urban consumers in June 2010 was 1.1% higher than the previous year.

These indicators were taken into account when adopting the budget for fiscal year 2011. Total projected receipts, including beginning balances available for appropriation in the budget, are \$20,288,307, an increase of 53% from the final fiscal year 2010 budget. This receipt increase is primarily attributable to increases in the tax base and the issuance of notes. The City will use our resources to finance programs we currently offer and fund our capital improvements. Budgeted disbursements (not including transfers) are expected to decrease .4% to \$13,097,935 from the final fiscal year 2010 budget. The City has added no major new programs to the fiscal year 2011 budget. However, it should be noted the most significant change is in the capital projects function.

If the budget estimates are realized, the City's cash balance is expected to increase \$321,342 by the close of fiscal year 2011 with sufficient balances remaining.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Finance Director Cindy Kudrna or City Administrator Gary G. Rogers, Jr., 101 Emmons Street, Hiawatha, Iowa 52233-1697.

Basic Financial Statements

City of Hiawatha

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2010

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 2,125,802	389,948	21,393	23,418
Public works	643,619	22,021	603,504	37,477
Health and social services	4,050	-	-	-
Culture and recreation	868,640	76,409	145,647	-
Community and economic development	137,352	-	-	-
General government	986,466	2,170	-	-
Debt service	3,352,349	-	1,147	2,406
Capital projects	1,268,989	-	-	-
Total governmental activities	9,387,267	490,548	771,691	63,301
Business type activities:				
Sewer	635,411	731,462	-	-
Total primary government	\$ 10,022,678	1,222,010	771,691	63,301
Component unit:				
Hiawatha Water Department	\$ 873,810	905,191	-	-
General Receipts:				
Property and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Note proceeds, net of \$26,970 discount and fees				
Sale of capital assets				
Miscellaneous				
Component unit and other transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Sewer and storm water fees				
Customer water deposits				
Capital projects				
Streets				
Urban renewal purposes				
Local option sales tax purposes				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	Hiawatha Water Department
(1,691,043)	-	(1,691,043)	-
19,383	-	19,383	-
(4,050)	-	(4,050)	-
(646,584)	-	(646,584)	-
(137,352)	-	(137,352)	-
(984,296)	-	(984,296)	-
(3,348,796)	-	(3,348,796)	-
(1,268,989)	-	(1,268,989)	-
(8,061,727)	-	(8,061,727)	-
-	96,051	96,051	-
(8,061,727)	96,051	(7,965,676)	-
-	-	-	31,381
2,908,037	-	2,908,037	-
1,309,918	-	1,309,918	-
1,692,261	-	1,692,261	-
778,708	-	778,708	-
5,268	426	5,694	2,291
4,733,030	-	4,733,030	-
30,100	-	30,100	-
167,637	-	167,637	-
70,601	7,200	77,801	(77,801)
11,695,560	7,626	11,703,186	(75,510)
3,633,833	103,677	3,737,510	(44,129)
3,896,614	375,429	4,272,043	403,064
\$ 7,530,447	479,106	8,009,553	358,935
\$ -	-	-	72,328
-	-	-	85,553
4,572,237	-	4,572,237	-
111,033	-	111,033	-
208,370	-	208,370	-
619,772	-	619,772	-
705,471	-	705,471	-
872,463	117,835	990,298	-
441,101	361,271	802,372	201,054
\$ 7,530,447	479,106	8,009,553	358,935

City of Hiawatha

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2010

		Special Revenue		
		Urban	Local	
	General	Renewal Tax Increment	Option Sales Tax	Equipment Reserve
Receipts:				
Property tax	\$ 2,092,481	-	-	-
Tax increment financing	-	1,692,261	-	-
Other city tax	21,808	-	778,708	-
Licenses and permits	177,440	-	-	-
Use of money and property	41,581	-	1,064	831
Intergovernmental	187,863	-	-	-
Charges for service	264,839	-	-	-
Special assessments	-	-	-	-
Miscellaneous	102,580	-	-	-
Total receipts	2,888,592	1,692,261	779,772	831
Disbursements:				
Operating:				
Public safety	1,615,440	-	-	51,280
Public works	49,950	-	-	122,537
Health and social services	4,050	-	-	-
Culture and recreation	670,806	-	-	18,276
Community and economic development	14	137,338	-	-
General government	858,455	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	3,198,715	137,338	-	192,093
Excess (deficiency) of receipts over (under) disbursements	(310,123)	1,554,923	779,772	(191,262)
Other financing sources (uses):				
Note proceeds, net of \$26,970 discount and fees	-	-	-	-
Operating transfers in	-	-	-	89,750
Operating transfers out	(18,500)	(1,502,974)	(160,000)	-
Component unit transfers in	-	-	-	3,250
Sale of capital assets	-	-	-	30,100
Total other financing sources (uses)	(18,500)	(1,502,974)	(160,000)	123,100
Net change in cash balances	(328,623)	51,949	619,772	(68,162)
Cash balances beginning of year	769,724	156,421	-	684,982
Cash balances end of year	\$ 441,101	208,370	619,772	616,820
Cash Basis Fund Balances				
Reserved for debt service	\$ -	-	-	-
Unreserved:				
General fund	441,101	-	-	-
Special revenue funds	-	208,370	619,772	616,820
Capital projects fund	-	-	-	-
Total cash basis fund balances	\$ 441,101	208,370	619,772	616,820

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
1,297,489	-	785,642	4,175,612
-	-	-	1,692,261
12,429	-	8,106	821,051
-	-	-	177,440
1,147	1,607	41	46,271
-	33,411	602,673	823,947
-	-	-	264,839
799	-	-	799
-	-	82,569	185,149
1,311,864	35,018	1,479,031	8,187,369
-	-	459,082	2,125,802
-	-	471,132	643,619
-	-	-	4,050
-	-	179,558	868,640
-	-	-	137,352
-	-	128,011	986,466
3,352,349	-	-	3,352,349
-	1,268,989	-	1,268,989
3,352,349	1,268,989	1,237,783	9,387,267
(2,040,485)	(1,233,971)	241,248	(1,199,898)
665,537	4,067,493	-	4,733,030
1,502,974	160,000	-	1,752,724
-	-	(61,750)	(1,743,224)
25,637	32,214	-	61,101
-	-	-	30,100
2,194,148	4,259,707	(61,750)	4,833,731
153,663	3,025,736	179,498	3,633,833
551,808	1,546,501	187,178	3,896,614
705,471	4,572,237	366,676	7,530,447
705,471	-	-	705,471
-	-	-	441,101
-	-	366,676	1,811,638
-	4,572,237	-	4,572,237
705,471	4,572,237	366,676	7,530,447

City of Hiawatha

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Fund

As of and for the year ended June 30, 2010

	<u>Enterprise Sewer Revenue</u>
Operating receipts:	
Charges for service	\$ 731,462
Operating disbursements:	
Business type activities	<u>635,411</u>
Excess of operating receipts over operating disbursements	96,051
Non-operating receipts:	
Interest on investments	<u>426</u>
Excess of receipts over disbursements	<u>96,477</u>
Transfers:	
Component unit transfers in	16,700
Operating transfer out	<u>(9,500)</u>
Total net transfers	<u>7,200</u>
Net change in cash balances	103,677
Cash balances beginning of year	<u>375,429</u>
Cash balances end of year	<u><u>\$ 479,106</u></u>
Cash Basis Fund Balances	
Reserved for vehicle/equipment purchases	\$ 117,835
Unreserved	<u>361,271</u>
Total cash basis fund balances	<u><u>\$ 479,106</u></u>

See notes to financial statements.

City of Hiawatha

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

The City of Hiawatha is a political subdivision of the State of Iowa located in Linn County. It was first incorporated in 1950 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Hiawatha has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Hiawatha (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

Discretely Presented Component Unit

The Hiawatha Water Department is presented in a separate column to emphasize it is legally separate from the City, but is financially accountable to the City or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

The Hiawatha Water Department was established to operate the City's waterworks facilities. The Water Department is governed by a five member Board of Trustees appointed by the Mayor and approved by the City Council. Title to all property of the Water Department is held in the name of the City. A financial benefit/burden relationship exists between the City and the Water Department in that the City is authorized by statute to issue general obligation debt for a City utility and may certify taxes for the payment of the debt. The Water Department is presented as a discretely presented component unit in these financial statements.

Blended Component Units – The Hiawatha Firefighters Association, Friends of the Hiawatha Public Library and Friends of Hiawatha Parks and Recreation are legally separate from the City but are so intertwined with the City they are, in substance, the same as the City. These component units are reported as part of the City and blended into the Special Revenue Funds of the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Linn County Assessor's Conference Board, City Assessor's Conference Board, Linn County Emergency Management Commission, Cedar Rapids/Linn County Solid Waste Agency and Linn County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions of enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Local Option Sales Tax Fund is used to account for local option sales tax collections.

The Equipment Reserve Fund is used to purchase City vehicles and equipment.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary fund:

The Sewer Revenue Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amount budgeted in the debt service function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$2,670,768 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation notes and bonds are as follows:

Year Ending June 30,	General Obligation Notes		General Obligation Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 1,815,000	414,501	225,000	195,000	2,040,000	609,501
2012	1,760,000	369,739	235,000	186,000	1,995,000	555,739
2013	2,655,000	321,899	245,000	176,600	2,900,000	498,499
2014	1,570,000	253,639	250,000	166,800	1,820,000	420,439
2015	1,460,000	205,909	260,000	156,800	1,720,000	362,709
2016 - 2020	4,030,000	457,576	1,465,000	619,400	5,495,000	1,076,976
2021 - 2025	610,000	30,830	1,790,000	301,600	2,400,000	332,430
2026	-	-	405,000	16,200	405,000	16,200
Total	\$ 13,900,000	2,054,093	4,875,000	1,818,400	18,775,000	3,872,493

During the year ended June 30, 2010, a total of \$4,760,000 of general obligation notes were issued and \$2,735,000 of general obligation notes/bonds were retired.

In April 2010, the City issued \$665,000 of refunding capital loan notes. The City used the proceeds of the refunding capital loan notes to retire the remaining outstanding balance of the 2004 general obligation capital loan notes. The City refunded the notes to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$19,524.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$173,120, \$146,169 and \$131,894, respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 46 active and 5 retired members in the plan. Participants must be age 65 or older and be a full-time employee of the City for 15 continuous years or, if under age 65, be a full-time employee of the City for 25 continuous years at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. For retirees under age 65, the City pays the same premium for the medical/prescription drug benefits as active employees. For retirees age 65 or older, the City pays a reduced premium for supplemental Medicare coverage and, as an added benefit, the single rate premium for a qualifying spouse for up to 3 years.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a month to month basis. The most recent active member monthly premiums for the City are \$413 for single coverage, \$782 for employee/children, \$846 for employee/spouse and \$1,268 for family coverage. The same monthly premiums apply to retirees under the age of 65. For retirees age 65 or older, the monthly premiums range from \$130 to \$188 for supplemental Medicare coverage. For the year ended June 30, 2010, the City contributed 100% of plan membership at a cost of \$516,093.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payable to employees at June 30, 2010, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$80,000
Sick leave	<u>28,000</u>
Total	<u>\$ 108,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2010.

(7) Construction Contracts

The City entered into various construction contracts during the year. Unpaid contract commitments as of June 30, 2010 totaled \$3,089,240. The balance on these contracts will be paid as work on the projects progresses.

(8) Urban Renewal Project Rebate and Economic Development Agreements

Rebate Agreements

The City has fifteen active tax increment financing agreements. The City agreed to assist in urban renewal projects by rebating incremental tax paid by the participating companies with respect to the improvements set forth in the urban renewal plan. The incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa from the participating companies will be rebated for a period of up to five years beginning with the tax year in which the property tax on the completed value of the improvements is first paid. The total amount that will be rebated in any fiscal year for the active tax increment financing agreements is not to exceed \$168,900. The actual amount rebated during the year ended June 30, 2010 was \$110,729.

Economic Development Contributions

On January 18, 2006, the City passed and approved Resolution No. 06-05 pledging financial support of \$50,000 to Priority One for services provided in attracting businesses to the metro area and assisting existing companies with expansion projects. The contribution is to be appropriated annually from the incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa and paid to the corporation in annual installments of \$10,000 over a five year period.

On November 4, 2009, the City passed and approved Resolution No. 09-142 pledging financial support of \$10,000 to Entrepreneurial Development Center Inc. (EDC) for economic development services. The contribution is to be appropriated from the incremental tax to be received by the City under Chapter 403.19 of the Code of Iowa.

The above agreements are not general obligations of the City. However, the agreements are subject to the constitutional debt limitation of the City.

The economic development contributions are subject to an annual contribution and only the amount payable in the succeeding year is subject to the constitutional debt limitation. The remaining 15 agreements do not include annual appropriation clauses and, accordingly, the entire outstanding principal balance of these agreements is subject to the constitutional debt limitation.

(9) Sewer Maintenance Agreement

The City entered into an agreement with the City of Cedar Rapids to discharge all waste collected in its sanitary sewer system into the City of Cedar Rapids' interceptor for treatment. The City agreed to share the operation, maintenance and construction costs of the water pollution control facility of the City of Cedar Rapids. The City's share of the operation and maintenance costs for the year ended June 30, 2010 totaled \$521,591.

(10) Industrial Development Revenue Bonds

The City has issued a total of \$2,142,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$1,333,354 is outstanding at June 30, 2010. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

(11) Private College Revenue Bonds

The City has issued a total of \$4,500,000 of private college revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$4,500,000 is outstanding at June 30, 2010. The bonds and related interest are payable solely from revenues derived from the project to be financed and the bond principal and interest do not constitute liabilities of the City.

(12) Risk Management

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 634 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2010 were \$89,106.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claims and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by The Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2010, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries commercial insurance purchased from other insurers for coverage associated with crime, general liability, commercial auto, workers compensation, and umbrella liability in the amount of \$10,000 per occurrence, \$2,000,000 per occurrence, \$2,000,000 per occurrence, \$1,000,000 per accident, and \$4,000,000 per occurrence, respectively. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(13) Solid Waste Agreement

On October 19, 1994, the City entered into a 28E Agreement with Cedar Rapids/Linn County Solid Waste Agency to be an associate member of the Agency. The Cedar Rapids/Linn County Solid Waste Agency was created under Iowa Code Chapter 28E by the City of Cedar Rapids and Linn County to provide for the proper and efficient management and disposal of solid waste. The 28E Agreement between the City of Cedar Rapids and Linn County became fully operative on July 1, 1994 and shall continue until June 30, 2044. At termination, each member and associate member shall make such guarantees as are necessary to facilitate closure of all solid waste disposal sites. All solid waste fees are collected by private solid waste handlers who are licensed by the City.

(14) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
Special Revenue:		
Equipment Reserve	General	\$ 18,500
	Special Revenue:	
	Road Use Tax	61,750
	Enterprise:	
	Sewer Revenue	9,500
		<u>89,750</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	1,502,974
Capital Projects	Special Revenue:	
	Local Option Sales Tax	160,000
Total		<u><u>\$ 1,752,724</u></u>
<u>Transfers from component unit:</u>		
Special Revenue:	Enterprise:	
Equipment Reserve	Water Operating	\$ 3,250
Debt Service	Water Operating	25,637
Capital Projects	Water Operating	32,214
Enterprise:		
Sewer Revenue	Water Operating	16,700
Total		<u><u>\$ 77,801</u></u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(15) Litigation

The City is subject to pending litigation seeking compensatory damages. The probability of loss, if any, is undeterminable.

Required Supplementary Information

City of Hiawatha
 Budgetary Comparison Schedule
 of Receipts, Disbursements and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds, Proprietary Fund
 and Component Unit

Required Supplementary Information

Year ended June 30, 2010

	Governmental Funds Actual	Proprietary Fund Actual	Component Unit Actual	Less Funds not Required to be Budgeted
Receipts:				
Property tax	\$ 4,175,612	-	-	-
Tax increment financing	1,692,261	-	-	-
Other city tax	821,051	-	-	-
Licenses and permits	177,440	-	-	-
Use of money and property	46,271	426	2,291	34
Intergovernmental	823,947	-	-	-
Charges for service	264,839	731,462	1,457,082	667,647
Special assessments	799	-	-	-
Miscellaneous	163,647	-	115,756	71,005
Total receipts	8,165,867	731,888	1,575,129	738,686
Disbursements:				
Public safety	2,125,802	-	-	18,355
Public works	643,619	-	-	-
Health and social services	4,050	-	-	-
Culture and recreation	868,640	-	-	31,261
Community and economic development	137,352	-	-	-
General government	986,466	-	-	-
Debt service	3,352,349	-	-	-
Capital projects	1,268,989	-	-	-
Business type activities	-	635,411	1,541,457	670,365
Total disbursements	9,387,267	635,411	1,541,457	719,981
Excess (deficiency) of receipts over (under) disbursements	(1,221,400)	96,477	33,672	18,705
Other financing sources (uses), net	4,833,731	7,200	(77,801)	-
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	3,612,331	103,677	(44,129)	18,705
Balances beginning of year	3,918,116	375,429	403,064	75,046
Balances end of year	\$ 7,530,447	479,106	358,935	93,751

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
4,175,612	4,113,284	4,163,013	12,599
1,692,261	1,852,824	1,852,824	(160,563)
821,051	124,729	1,035,000	(213,949)
177,440	137,250	136,950	40,490
48,954	90,000	48,300	654
823,947	695,450	838,851	(14,904)
1,785,736	1,874,327	2,035,780	(250,044)
799	-	-	799
208,398	78,000	114,510	93,888
9,734,198	8,965,864	10,225,228	(491,030)
2,107,447	2,218,464	2,214,499	107,052
643,619	680,012	696,417	52,798
4,050	-	13,000	8,950
837,379	831,601	849,501	12,122
137,352	189,200	189,200	51,848
986,466	940,381	1,032,048	45,582
3,352,349	2,689,462	3,182,580	(169,769)
1,268,989	1,687,000	2,948,020	1,679,031
1,506,503	1,782,443	2,032,887	526,384
10,844,154	11,018,563	13,158,152	2,313,998
(1,109,956)	(2,052,699)	(2,932,924)	1,822,968
4,763,130	2,250,000	2,554,875	2,208,255
3,653,174	197,301	(378,049)	4,031,223
4,621,563	2,984,447	2,984,447	1,637,116
8,274,737	3,181,748	2,606,398	5,668,339

City of Hiawatha

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, including the discretely presented component unit. However, the sewer and storm water fees collected by the Hiawatha Water Department and remitted to the City of Hiawatha have been deducted in the column “Less Funds not Required to be Budgeted” since these are intra agency transactions not required to be budgeted. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$2,139,589. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amount budgeted in the debt service function. The City also exceeded the amount budgeted prior to the budget amendment in the health and social services function.

Other Supplementary Information

City of Hiawatha

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2010

	Road Use Tax	I-Jobs	Employee Benefits
Receipts:			
Property tax	\$ -	-	785,642
Other city tax	-	-	8,106
Use of money and property	-	-	-
Intergovernmental	574,296	28,377	-
Miscellaneous	-	-	-
Total receipts	574,296	28,377	793,748
Disbursements:			
Operating:			
Public safety	-	-	432,020
Public works	468,587	2,545	-
Culture and recreation	-	-	148,297
General government	-	-	128,011
Total disbursements	468,587	2,545	708,328
Excess (deficiency) of receipts over (under) disbursements	105,709	25,832	85,420
Operating transfers out	(61,750)	-	-
Net change in cash balances	43,959	25,832	85,420
Cash balances beginning of year	67,074	-	96,114
Cash balances end of year	\$ 111,033	25,832	181,534
Cash Basis Fund Balances			
Unreserved:			
Special revenue funds	\$ 111,033	25,832	181,534

See accompanying independent auditor's report.

Special Revenue						
Police Forfeiture	Fire Department Trust	K-9 Donations	Hiawatha Firefighters Association	Friends of the Hiawatha Public Library	Friends of Hiawatha Parks and Recreation	Total
-	-	-	-	-	-	785,642
-	-	-	-	-	-	8,106
-	7	-	17	17	-	41
-	-	-	-	-	-	602,673
2,923	8,121	520	26,096	33,464	11,445	82,569
2,923	8,128	520	26,113	33,481	11,445	1,479,031
1,705	6,579	423	18,355	-	-	459,082
-	-	-	-	-	-	471,132
-	-	-	-	28,563	2,698	179,558
-	-	-	-	-	-	128,011
1,705	6,579	423	18,355	28,563	2,698	1,237,783
1,218	1,549	97	7,758	4,918	8,747	241,248
-	-	-	-	-	-	(61,750)
1,218	1,549	97	7,758	4,918	8,747	179,498
9,284	8,133	6,573	-	-	-	187,178
10,502	9,682	6,670	7,758	4,918	8,747	366,676
10,502	9,682	6,670	7,758	4,918	8,747	366,676

City of Hiawatha
Schedule of Indebtedness
Year ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Capital loan note series 2004	May 1, 2004	1.40-3.85%	\$ 2,160,000
Capital loan note series 2005	Mar 1, 2005	2.50-3.70	2,930,000
Capital loan note series 2006	May 1, 2006	3.750-3.875	2,995,000
Capital loan note series 2007	Nov 1, 2007	3.45-3.75	2,600,000
Capital loan note series 2008	Apr 1, 2008	2.40-3.80	2,100,000
Capital loan note series 2009A	Apr 1, 2009	1.60-4.05	2,250,000
Capital loan note series 2009B	Apr 1, 2009	1.60-2.55	690,000
Capital loan note series 2010A (refunding)	Apr 1, 2010	1.00-1.80	665,000
Capital loan note series 2010B	Jun 15, 2010	1.00-3.40	3,140,000
Capital loan note series 2010C	Jun 15, 2010	2.00	955,000
Total			
General obligation bonds:			
Series 2006B	Sep 1, 2006	4.00%	\$ 5,500,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
800,000	-	800,000	-	28,173
1,605,000	-	245,000	1,360,000	56,200
2,220,000	-	280,000	1,940,000	84,034
2,380,000	-	225,000	2,155,000	86,338
1,715,000	-	525,000	1,190,000	52,187
2,250,000	-	275,000	1,975,000	80,188
690,000	-	170,000	520,000	16,858
-	665,000	-	665,000	-
-	3,140,000	-	3,140,000	-
-	955,000	-	955,000	-
<u>\$ 11,660,000</u>	<u>4,760,000</u>	<u>2,520,000</u>	<u>13,900,000</u>	<u>403,978</u>
<u>\$ 5,090,000</u>	<u>-</u>	<u>215,000</u>	<u>4,875,000</u>	<u>203,600</u>

City of Hiawatha
Bond and Note Maturities

June 30, 2010

Year Ending June 30,	General Obligation Notes							
	Capital Loan Note Series 2005		Capital Loan Note Series 2006		Capital Loan Note Series 2007		Capital Loan Note Series 2008	
	Issued Mar 1, 2005		Issued May 1, 2006		Issued Nov 1, 2007		Issued Apr 1, 2008	
	Interest		Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount
2011	3.30%	\$ 255,000	3.750%	\$ 295,000	3.50%	\$ 235,000	2.80%	\$ 315,000
2012	3.50	265,000	3.750	305,000	3.55	245,000	3.05	220,000
2013	3.60	270,000	3.750	315,000	3.60	255,000	3.25	110,000
2014	3.65	280,000	3.750	330,000	3.625	260,000	3.40	110,000
2015	3.70	290,000	3.850	340,000	3.65	275,000	3.50	115,000
2016		-	3.875	355,000	3.70	285,000	3.65	120,000
2017		-		-	3.70	295,000	3.75	100,000
2018		-		-	3.75	305,000	3.80	100,000
2019		-		-		-		-
2020		-		-		-		-
2021		-		-		-		-
2022		-		-		-		-
Total		<u>\$ 1,360,000</u>		<u>\$ 1,940,000</u>		<u>\$ 2,155,000</u>		<u>\$ 1,190,000</u>

Year Ending June 30,	Capital Loan Note Series 2010C		
	Issued June 15, 2010		Total
	Interest Rates	Amount	
2011	2.00%	\$ -	1,815,000
2012	2.00	-	1,760,000
2013	2.00	955,000	2,655,000
2014		-	1,570,000
2015		-	1,460,000
2016		-	1,210,000
2017		-	875,000
2018		-	905,000
2019		-	515,000
2020		-	525,000
2021		-	300,000
2022		-	310,000
Total		<u>\$ 955,000</u>	<u>13,900,000</u>

See accompanying independent auditor's report.

City of Hiawatha
Bond and Note Maturities
June 30, 2010

Capital Loan Note Series 2009A Issued Apr 1, 2009		Capital Loan Note Series 2009B Issued Apr 1, 2009		Capital Loan Note Series 2010A Issued Apr 1, 2010		Capital Loan Note Series 2010B Issued June 15, 2010	
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2.00%	\$ 150,000	2.00%	\$ 170,000	1.00%	\$ 165,000	1.00%	\$ 230,000
2.20	160,000	2.20	170,000	1.10	165,000	1.15	230,000
2.55	170,000	2.55	180,000	1.45	165,000	1.50	235,000
2.90	180,000	-	-	1.80	170,000	1.55	240,000
3.10	190,000	-	-	-	-	1.80	250,000
3.35	200,000	-	-	-	-	2.15	250,000
3.55	220,000	-	-	-	-	2.50	260,000
3.80	230,000	-	-	-	-	2.75	270,000
4.00	240,000	-	-	-	-	3.00	275,000
4.05	235,000	-	-	-	-	3.05	290,000
-	-	-	-	-	-	3.25	300,000
-	-	-	-	-	-	3.40	310,000
	<u>\$ 1,975,000</u>		<u>\$ 520,000</u>		<u>\$ 665,000</u>		<u>\$ 3,140,000</u>

Schedule 3

City of Hiawatha
Bond and Note Maturities
June 30, 2010

General Obligation Bonds		
Series 2006B		
Issued Sep 1, 2006		
Year Ending June 30,	Interest Rates	Amount
2011	4.00%	\$ 225,000
2012	4.00	235,000
2013	4.00	245,000
2014	4.00	250,000
2015	4.00	260,000
2016	4.00	270,000
2017	4.00	280,000
2018	4.00	295,000
2019	4.00	305,000
2020	4.00	315,000
2021	4.00	330,000
2022	4.00	345,000
2023	4.00	355,000
2024	4.00	370,000
2025	4.00	390,000
2026	4.00	405,000
Total		<u>\$ 4,875,000</u>

City of Hiawatha

City of Hiawatha

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Eight Years

	2010	2009	2008	2007
Receipts:				
Property tax	\$ 4,175,612	4,119,235	3,298,664	2,962,630
Tax increment financing	1,692,261	1,423,388	1,487,473	1,259,141
Other city tax	821,051	100,012	115,909	110,527
Licenses and permits	177,440	168,355	169,797	165,811
Use of money and property	46,271	77,454	245,308	480,339
Intergovernmental	823,947	727,027	674,455	846,729
Charges for service	264,839	284,154	203,131	155,341
Special assessments	799	840	1,001	978
Miscellaneous	185,149	136,804	177,807	125,004
Total	<u>\$ 8,187,369</u>	<u>7,037,269</u>	<u>6,373,545</u>	<u>6,106,500</u>
Disbursements:				
Operating:				
Public safety	\$ 2,125,802	1,886,866	1,735,730	1,559,729
Public works	643,619	512,414	611,525	556,117
Health and social services	4,050	13,850	-	-
Culture and recreation	868,640	750,906	670,286	613,194
Community and economic development	137,352	79,856	278,561	238,221
General government	986,466	817,429	772,037	810,410
Debt service	3,352,349	3,058,406	3,359,489	2,087,763
Capital projects	1,268,989	2,439,920	7,246,612	5,739,313
Total	<u>\$ 9,387,267</u>	<u>9,559,647</u>	<u>14,674,240</u>	<u>11,604,747</u>

See accompanying independent auditor's report.

2006	2005	2004	2003
2,823,023	2,534,194	2,113,627	1,918,938
1,074,664	1,740,411	1,420,403	1,505,996
95,052	98,650	131,656	685,654
148,478	150,730	144,275	130,544
227,022	111,865	59,232	63,679
1,361,067	707,753	963,519	727,261
135,417	36,516	51,259	42,332
985	84,147	140	101,715
122,790	109,488	130,654	99,050
5,988,498	5,573,754	5,014,765	5,275,169
1,491,960	1,365,250	1,025,310	802,089
564,141	434,043	423,936	412,802
-	-	-	-
575,425	514,466	406,993	372,715
232,505	590,473	696,232	731,619
785,661	651,414	654,196	599,362
1,721,654	1,911,863	2,024,166	1,752,589
3,033,380	1,973,326	2,664,191	770,297
8,404,726	7,440,835	7,895,024	5,441,473

City of Hiawatha



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Hiawatha, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 19, 2010. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Hiawatha's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Hiawatha's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hiawatha's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Hiawatha's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting, described in the accompanying schedule of findings as item (1), we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

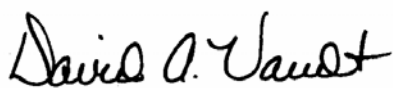
As part of obtaining reasonable assurance about whether the City of Hiawatha's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

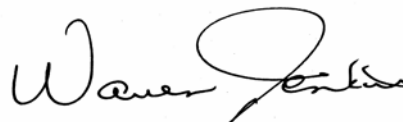
The City of Hiawatha's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Hiawatha's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Hiawatha and other parties to whom the City of Hiawatha may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Hiawatha during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 19, 2010

City of Hiawatha

Schedule of Findings

Year ended June 30, 2010

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCY:

- (1) Cell Phones – The City issues cell phones to the Parks Department, the Community Development Department, the Fire Department – ambulances, the Streets Superintendent, Building Maintenance, the City Clerk and the Mayor. The Police Department, the Fire Department and the City Administrator use personal cell phones and are reimbursed \$90 per quarter by the City. Although the City has developed procedures for cell phone usage, written policies governing the use of cell phones have not been adopted. In addition, during the year ended June 30, 2010, \$35 in roaming charges and \$9 in text messaging charges were included on the cell phone invoices.

Recommendation – The City should establish written policies governing the use of cell phones. In addition, cell phone bills should be scrutinized by City officials for proper usage.

Response – The policy was amended and approved August 18, 2010.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Hiawatha
Schedule of Findings
Year ended June 30, 2010

Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2010 exceeded the amount budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

The City also exceeded the amount budgeted prior to the May 19, 2010 budget amendment in the health and social services function.

Recommendation – The budget should have been amended in sufficient amounts as required by Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will be more attentive in the upcoming year.

Conclusion – Response accepted.

- (2) Questionable Disbursements – Two travel claims contained \$17 in alcohol charges which we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted.

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved closed scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Subsequent to audit identification, reimbursement was made to the City.

Recommendation – The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements of proper documentation.

Response – The policy was amended and approved August 18, 2010.

Conclusion – Response accepted.

- (3) Travel Expense – An \$18 meal reimbursement for a spouse of a City official was identified. Subsequent to audit identification, reimbursement was made to the City.

Recommendation – The City should ensure no disbursements of City money for travel expenses of spouses of City officials or employees are made.

Response – The travel policy was reviewed, amended and approved on August 18, 2010.

Conclusion – Response accepted.

City of Hiawatha

Schedule of Findings

Year ended June 30, 2010

- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

City of Hiawatha

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Daniel L. Grady, Senior Auditor
Rosemary E. Nielsen, Assistant Auditor
Ainslee M. Barnes, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, stylized "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State